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SENSITIVE
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STATE PASS USTR FOR STRATFORD AND KEMP
DEPT OF COMMERCE FOR DAVID SPOONER, RONALD LORENTZEN AND MATTHEW
PRIEST

E.O. 12958: N/A
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SUBJECT: CHINA RESPONDS TO U.S. TRADE CONCERNS OVER STEEL AND YELLOW
PHOSPHOROUS

REF: BEIJING 4304

1.(SBU) SUMMARY: Chinese Ministry of Commerce Director General of Foreign Trade Wang Shouwen responded to U.S. concerns regarding steel and yellow phosphorous. DG Wang's response suggested that China would review the high export tariff for yellow phosphorous, but he firmly reiterated China's policy stance on steel product export duties and VAT rebates. END SUMMARY.

12. (SBU) At a November 18, 2008, meeting requested by Director General Wang Shouwen of the Department of Foreign Trade at the Chinese Ministry of Commerce (MOFCOM) to discuss the U.S.-China Memorandum of Understanding on Textile and Apparel Products (reftel), Minister Counselor for Trade Affairs Christopher Adams raised two issues of concern to the U.S. side regarding trade in steel products and yellow phosphorus.

Change Unlikely in Steel Policy

13. (SBU) MC Adams addressed China's recent decision to remove export duties and increase VAT export rebates on steel products. He reiterated the U.S. side's concern that the Chinese government seems to implement such policies in a selective manner, resulting in increased exports of downstream steel products. MC Adams cited the U.S. industry presentation during the U.S.-China Steel Dialogue in October, as well as follow-up information, which explained the imbalance created by the Chinese government's policy of taxing exports of wire rod but giving a VAT export rebate for downstream wire rod products. MC Adams emphasized that U.S. wire producers may pursue litigation if the matter is not resolved.

14. (SBU) DG Wang responded that following the Steel Dialogue, the Chinese government considered they had two options: to either retain the VAT export rebate for all wire/wire products, although the U.S. side would not approve of such action, or to take the recent actions of lowering/removing export tariffs and increasing the VAT export rebates. However, DG Wang said he would further discuss the matter with other ministries that comprise the State Council's Tariff Committee.

Possible Action on Yellow Phosphorus

15. (SBU) Regarding yellow phosphorus, MC Adams acknowledged China's decrease of the recent "special" export duty from 100 percent to 75 percent, but pointed out that the total duty on this product remains at 95 percent, which is extremely high, hurting American users. He pointed out that yellow phosphorus is not used in the production of phosphate fertilizers, an explanation the Chinese had earlier tried to use to justify the sudden duty imposition. Therefore the Chinese government's tax will not be effective in ensuring China's supply of fertilizer, particularly because there is no tax on downstream

products.

¶6. (SBU) DG Wang explained that although yellow phosphorus is not used to produce fertilizer, phosphorus rock is used for production of both phosphate fertilizer and yellow phosphorus. He said the portion used for production of yellow phosphorous is very small compared to that used in fertilizer production. MC Adams noted that this suggested there was no need to restrict exports of yellow phosphorous in order to ensure fertilizer supply. DG Wang acknowledged that other countries have also raised concerns regarding this policy and said the Chinese government would consider whether further action was warranted.

¶7. (SBU) COMMENT: DG Wang's remarks suggested that the Chinese side would stand firm regarding current export tariff/VAT export rebate policy on steel products, including for wire products. However, DG Wang appeared to suggest that a change in policy on yellow phosphorus was possible. END COMMENT.

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